

**STATE OF MICHIGAN**  
JENNIFER M. GRANHOLM, Governor  
**DEPARTMENT OF TREASURY**

JAY B. RISING  
State Treasurer



Report on  
Examination  
**VILLAGE OF BURLINGTON**  
**CALHOUN COUNTY**  
**February 28, 2003**

Local Audit and Finance Division  
Bureau of Local Government Services

VILLAGE OF BURLINGTON

VILLAGE COUNCIL

John Hagaman  
President

Shirley Jeffries  
Council Member

Deborah Emmel  
Council Member

Sandra Dowell  
Council Member

David Horkey  
Council Member

Leo Hughes  
Council Member

Peni Hughes  
Clerk

Elizabeth Sigourney  
Treasurer

VILLAGE POPULATION--2000

294

STATE EQUALIZED VALUATION--2002



JENNIFER M. GRANHOLM  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

JAY B. RISING  
STATE TREASURER

October 11, 2004

Village Council  
Village of Burlington  
Calhoun County  
356 East Leroy  
Burlington, Michigan 49029

Independent Auditor's Report

Dear Village Council:

We have audited the general purpose financial statements of the Village of Burlington, Calhoun County, Michigan, as of and for the year ended February 28, 2003 as listed in the Table of Contents. These general purpose financial statements are the responsibility of the Village of Burlington's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described more fully in Note B, the Village of Burlington has not maintained a record of its general fixed assets account group, as required by accounting principles generally accepted in the United States. Determination of the value of the Village of Burlington's general fixed asset account group was not possible.

In our opinion, except that the omission of the fixed asset account group results in an incomplete presentation as explained in the preceding paragraph, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Village of Burlington and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued reports dated October 11, 2004, on our consideration of the Village of Burlington's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

We conducted our audit for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying supporting schedules are presented for purpose of additional analysis and are not a required part of the general purpose financial statements of the Village of Burlington. Such information has been subjected to the auditing procedures applied in the examination of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

A handwritten signature in dark ink, appearing to read 'CJ Vaughn', with a long horizontal flourish extending to the right.

Cary Jay Vaughn, CPA, CGFM  
Audit Manager  
Local Audit and Finance Division

# VILLAGE OF BURLINGTON

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**VILLAGE OF BURLINGTON**  
**COMBINED BALANCE SHEET--ALL FUND TYPES**  
**February 28, 2003**

**EXHIBIT A**

	<b>PRIMARY GOVERNMENT</b>			<b>Total (Memorandum Only)</b>
	<b>GOVERNMENTAL FUND TYPES</b>		<b>PROPRIETARY FUND TYPE</b>	
	<b>General Fund</b>	<b>Special Revenue</b>	<b>Enterprise Fund</b>	
<b><u>ASSETS</u></b>				
Cash	\$ 66,010	\$ 85,448		\$ 151,458
Delinquent Taxes Receivable	8,209			8,209
Due From State	13,694	17,803		31,497
Due From Other Funds	76,240	3,643		79,883
Fixed Assets (Net)			\$ 18,152	18,152
Total Assets	<u>\$ 164,153</u>	<u>\$ 106,894</u>	<u>\$ 18,152</u>	<u>\$ 289,199</u>
<b><u>LIABILITIES AND FUND EQUITY</u></b>				
Liabilities				
Accrued Liabilities	\$ 2,581			\$ 2,581
Due to Other Funds		\$ 79,600	\$ 283	79,883
Total Liabilities	<u>2,581</u>	<u>79,600</u>	<u>283</u>	<u>82,464</u>
Fund Equities				
Fund Balance	161,572	27,294		188,866
Retained Earnings			17,869	17,869
Total Fund Equity	<u>161,572</u>	<u>27,294</u>	<u>17,869</u>	<u>206,735</u>
Total Liabilities and Fund Equity	<u>\$ 164,153</u>	<u>\$ 106,894</u>	<u>\$ 18,152</u>	<u>\$ 289,199</u>

**The Notes to Financial Statements are an integral part of this statement.**

**VILLAGE OF BURLINGTON**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES--ALL GOVERNMENTAL FUND TYPES**  
**For the Year Ended February 28, 2003**

**EXHIBIT B**

	<b>PRIMARY GOVERNMENT</b>		
	General Fund	Special Revenue	Total (Memorandum Only)
Revenues			
Taxes	\$ 28,682		\$ 28,682
State Grants	46,800	\$ 256,928	303,728
Interest and Rentals	3,148	1,410	4,558
Total Revenues	78,630	258,338	336,968
Expenditures			
Legislative	3,968		3,968
General Government	13,700		13,700
Public Works	8,422	335,669	344,091
Recreational and Cultural	5,112		5,112
Other	10,584		10,584
Capital Outlay	807		807
Total Expenditures	42,593	335,669	378,262
Excess of Revenues Over (Under) Expenditures	36,037	(77,331)	(41,294)
Other Financing Sources (Uses)			
Operating Transfers In		4,000	4,000
Operating Transfers (Out)	(4,000)		(4,000)
Total Other Financing Sources (Uses)	(4,000)	4,000	-
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	32,037	(73,331)	(41,294)
Fund Balance--March 1, 2002	129,535	100,625	230,160
Fund Balance--February 28, 2003	\$ 161,572	\$ 27,294	\$ 188,866

**The Notes to Financial Statements are an integral part of the statement.**

**VILLAGE OF BURLINGTON**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES--BUDGET AND ACTUAL**  
**GENERAL FUND AND SPECIAL REVENUE FUNDS**  
**For the Year Ended February 28, 2003**

**EXHIBIT C**

	<b>GENERAL FUND</b>			<b>SPECIAL REVENUE FUNDS</b>		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenues						
Taxes	\$ 20,473	\$ 28,682	\$ 8,209			
State Grants	31,183	46,800	15,617	-	\$ 256,928	\$ 256,928
Interest and Rentals	2,678	3,148	470	-	1,410	1,410
Total Revenue	54,334	78,630	24,296	\$ -	258,338	258,338
Expenditures						
Legislative	1,487	3,968	(2,481)			
General Government	11,389	13,700	(2,311)			
Public Works	7,098	8,422	(1,324)	-	335,669	(335,669)
Recreational and Cultural	4,585	5,112	(527)			
Other	9,981	10,584	(603)			
Capital Outlay	807	807	-			
Debt Service	4,111		4,111			
Total Expenditures	39,458	42,593	(3,135)	-	335,669	(335,669)
Excess of Revenues Over (Under) Expenditures	14,876	36,037	21,161	-	(77,331)	(77,331)
Other Financing Sources (Uses)						
Operating Transfers In	1,915		(1,915)	-	4,000	4,000
Operating Transfers (Out)	(4,000)	(4,000)	-			
Total Other Financing Sources (Uses)	(2,085)	(4,000)	(1,915)	-	4,000	4,000
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	12,791	32,037	19,246	-	(73,331)	(73,331)
Fund Balance--March 1, 2002	24,262	129,535	105,273	-	100,625	100,625
Fund Balance--February 28, 2003	\$ 37,053	\$ 161,572	\$ 124,519	\$ -	\$ 27,294	\$ 27,294

**The Notes to Financial Statements are an integral part of this statement.**



**VILLAGE OF BURLINGTON**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES**  
**IN RETAINED EARNINGS--ALL PROPRIETARY FUND TYPES**  
**For the Fiscal Year Ended February 28, 2003**

**EXHIBIT D**

	Internal Service Fund
Operating Revenues	
Charge for Services	<u>\$ 2,632</u>
Total Operating Revenues	<u>2,632</u>
Operating Expenses	
Depreciation	<u>7,328</u>
Total Operating Expenses	<u>7,328</u>
Net Operating Income (Loss)	<u>(4,696)</u>
Net Income (Loss)	<u>(4,696)</u>
Retained Earnings--March 1, 2002	<u>22,565</u>
Retained Earnings--February 28, 2003	<u><u>\$ 17,869</u></u>

**The Notes to Financial Statements are an integral part of this statement.**

**VILLAGE OF BURLINGTON**  
**COMBINED STATEMENT OF CASH FLOWS**  
**ALL PROPRIETARY FUND TYPES**  
**For the Fiscal Year Ended February 28, 2003**

**EXHIBIT E**

	Total Internal Service Funds
Cash Flows From Operating Activities	
Cash Received From Customers	<u>\$ 2,632</u>
Net Cash Provided by Operating Activities	<u>2,632</u>
Cash Flows From Noncapital Financing Activities	
Due to Other Funds	<u>1,019</u>
Net Cash Provided by Capital and Related Financing Activities	<u>1,019</u>
Cash Flows From Capital and Related Financing Activities	
Reduction of Long-Term Debt	<u>(3,651)</u>
Net Cash Provided by Capital and Related Financing Activities	<u>(3,651)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	-
Cash and Cash Equivalents at Beginning of Year	<u>-</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ -</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income (Loss)	\$ (4,696)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation Expense	<u>7,328</u>
Net Cash Provided by Operating Activities	<u><u>\$ 2,632</u></u>

**The Notes to Financial Statements are an integral part of this statement.**

## VILLAGE OF BURLINGTON

### NOTES TO FINANCIAL STATEMENTS

#### NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Village of Burlington (village) is located in Calhoun County and operates under a general law village form of government. The village provides services to its 294 residents in many areas including public works and general government. The village is governed by a six member council and a president elected by its citizens.

#### REPORTING ENTITY

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," these financial statements present the village (the primary government) and its component units. The criteria established by GASB for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading, if data were not included.

The individual component units discussed below are included in the village's reporting entity because of the significance of their operational or financial relationships with the village.

#### NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### BASIS OF PRESENTATION

The accounts of the government are organized and operated on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained, consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds.

The financial activities of the Village of Burlington are recorded in separate funds and account groups, categorized as follows:

#### GOVERNMENTAL FUNDS

#### General Fund

This fund is used to account for all financial resources except those provided for in another fund. Revenues are primarily derived from property taxes, state distributions, grants, and charges for services to provide for the administration and operation of general operating expenditures of the village government.

VILLAGE OF BURLINGTON  
NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Special Revenue Funds

These funds are used to account for specific revenue sources, generally derived from State and Federal grants, General Fund appropriations and charges for services, which are to be expended for specific purposes as dictated by legal, regulatory, or administrative requirements.

PROPRIETARY FUNDS

Internal Service Funds

These funds account for the financing of goods and services provided by one department or agency to other departments or agencies of the governmental unit, or to other governmental units on a cost reimbursement-basis basis. The Equipment Fund is the only internal service fund.

MEASUREMENT FOCUS/BASIS OF ACCOUNTING

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures (expenses) are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

Governmental Fund Types

The governmental fund types (General and Special Revenue Funds) use a financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Current expenditures are generally recorded when the fund liability is incurred, if measurable.

Exceptions to this general rule include principal and interest on general long-term debt, which is recognized when due, and accrued vacation and sick leave, which is recorded when payable from current available financial resources.

Proprietary Fund Type

The proprietary fund type (Internal Service Fund) is accounted for on a cost-of-service or "capital maintenance" measurement focus, using the accrual basis of accounting.

The Village of Burlington applies all GASB pronouncements as well as the Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

## VILLAGE OF BURLINGTON

### NOTES TO FINANCIAL STATEMENTS

#### NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### Cash, Cash Equivalents and Investments

For purposes of the statement of cash flows, demand deposits and certificates of deposit are considered to be cash equivalents.

##### Property Taxes

The village's 2002 ad valorem tax is levied and collectible on July 1, 2002. It is the village's policy to recognize revenues from the current tax levy in the current year when the proceeds of this levy are budgeted and made available for financing of the village operations. Property taxes are recognized when received. The 2002 State taxable valuation of village amounted to \$2,832,172, on which ad valorem taxes levied for all village purposes are \$28,682. There are 10.3352 mills for general operations recognized in the General Fund.

Uncollected real property taxes, which become delinquent October 1, are purchased by Calhoun County and paid to the village in May of the subsequent year. The delinquent taxes at December 31<sup>st</sup> are recorded as delinquent taxes receivable.

##### Taxes Receivable--Delinquent

The taxes receivable delinquent in the General Fund consist of uncollected real property taxes levied July 1, 2002, which have not been collected at February 28, 2003. The delinquent property taxes for the General Fund are \$8,209.

#### FIXED ASSETS

##### Governmental Fund Types

The accounting policies of the village as they relate to fixed assets are not in accordance with generally accepted accounting principles (GAAP) in that the general fixed assets are not recorded, except for those recorded in the proprietary funds. Fixed assets purchases of the village's governmental funds are recorded as capital outlay expenditures at the time of the purchase and are required by generally accepted accounting principles to be accounted for in the general fixed assets account group. No depreciation is recorded for these general fixed assets.

##### Proprietary Fund

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated. Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on proprietary fund balance sheets. Depreciation has been provided over the estimated useful life (5-10 years) using the straight-line method.

VILLAGE OF BURLINGTON  
NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities; disclosure of contingent assets and liabilities at the date of the financial statements; and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Total Column on Combined Statements--Overview

The total columns on the combined statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or changes in financial position, in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation because interfund eliminations have not been made in the aggregation of this data.

NOTE C--LEGAL COMPLIANCE

Budgets are adopted by the village council for the general fund without holding a public hearing. The village did not adopt a budget until after the beginning of the fiscal year. The budget basis of accounting does not differ significantly from the modified accrual basis used to reflect actual revenues and expenditures for these funds. The budget is adopted at the activity level and control is exercised at the activity level. The village council does not monitor or amend the budgets as necessary. Unexpended appropriations lapse at year-end.

Excess of Expenditures Over Appropriations in Budgeted Funds

Public Act 2 of 1968, as amended, requires the adoption of a balanced budget for general and special revenue funds, as well as budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget.

# VILLAGE OF BURLINGTON

## NOTES TO FINANCIAL STATEMENTS

### NOTE C--LEGAL COMPLIANCE (Continued)

The village has not complied with certain provisions of Public Act 2 of 1968, as amended. Items of noncompliance are as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund			
Legislative			
Village Council	\$ 1,487	\$ 3,968	\$ (2,481)
General Government			
Clerk	948	2,408	(1,460)
Treasurer	1,387	3,987	(2,600)
Public Works			
Department of Public Works	946	2,270	(1,324)
Recreational and Cultural			
Parks and Recreation	4,140	4,725	(585)
Other			
Insurance and Fringes	9,981	10,584	(603)

During the year ended February 28, 2003, budgets were not adopted for the following special revenue fund:

Fund 202	Major Street Fund
Fund 203	Local Street Fund

### Legal Noncompliance/Violation of Finance Related Provision

1. Failure to establish or maintain the Uniform Chart of Accounts in a formal accounting system in accordance with PA 2 of 1968, as amended, (MCL 141.421).
2. Noncompliance with the budgeting act as required by PA 2 of 1968, as amended, (MCL 141.421 through MCL 141.440a).
3. Failure to adopt an investment policy in accordance with PA 20 of 1943, as amended, (MCL 129.95).

### NOTE D--BALANCE SHEET CASH AND INVESTMENTS

Michigan Compiled Laws (MCL), Section 129.91, authorizes the local unit to deposit and invest in the accounts of Federally insured banks, credit unions and savings and loan associations; bonds, securities, and other direct obligations of the United States, or an agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by

# VILLAGE OF BURLINGTON

## NOTES TO FINANCIAL STATEMENTS

### NOTE D--BALANCE SHEET CASH AND INVESTMENTS (Continued)

two standard rating agencies within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

Deposits are carried at cost. Deposits of the village are at two banks in the name of village. An investment policy has not been adopted by the council as required by Public Act 20 of 1943, as amended. The village's deposits are in accordance with statutory authority.

The Governmental Accounting Standards Board (GASB) Statement No. 3, risk disclosures for the village's cash deposits are as follows:

<u>Deposits</u>	<u>Bank Balance</u>	<u>Carrying Amount</u>
Insured (FDIC)	\$100,000	\$100,000
Uninsured	<u>47,684</u>	<u>51,458</u>
Total Cash and Deposits	<u><u>\$147,684</u></u>	<u><u>\$151,458</u></u>

### NOTE E--INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivables and payables for the primary government are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	\$76,240	Major Street	\$72,705
		Local Street	3,252
		Equipment	<u>283</u>
		Subtotal	<u>76,240</u>
Local Street	<u>3,643</u>	Major Street	<u>3,643</u>
Total	<u><u>\$79,883</u></u>		<u><u>\$79,883</u></u>



VILLAGE OF BURLINGTON  
NOTES TO FINANCIAL STATEMENTS

NOTE F--FIXED ASSETS

Internal Service Funds--Equipment Funds

A summary of proprietary fixed assets at February 28, 2003 follows:

	<u>Equipment Fund</u>
Equipment	\$ 48,407
Less: Accumulated Depreciation	<u>(30,255)</u>
Net Fixed Assets	<u><u>\$ 18,152</u></u>

The depreciation expense was \$7,328 for the year ended February 28, 2003.

NOTE G--LONG-TERM DEBT

The individual long-term debt and other general long-term obligations of the primary government of the village, and the changes therein, may be summarized as follows:

	<u>Balance 03/01/02</u>	<u>Additions (Reductions)</u>	<u>Balance 02/28/03</u>
<u>INTERNAL SERVICE FUNDS</u>			
Village of Burlington Equipment Fund Installment Purchase Agreement dated October 8, 1998 with equal monthly installments of \$459.	<u>\$ 4,111</u>	<u>\$ (4,111)</u>	<u>          </u>
Total Long-Term Debt	<u><u>\$ 4,111</u></u>	<u><u>\$ (4,111)</u></u>	<u><u>\$ -</u></u>

NOTE I--RISK MANAGEMENT

The Village of Burlington is exposed to various risks of loss related to property loss, torts, and errors and omissions and employees injuries (workers compensation). The village has purchased commercial insurance coverage through various policies for general liability, property, vehicle and workmen's compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

The Michigan Township's Participating Plan operates as an insurance pool for local units of government in Michigan. The Plan purchases commercial insurance on behalf of its members at a lower cost than would be available on an individual basis.

**VILLAGE OF BURLINGTON**  
**STATEMENT OF REVENUES AND OTHER FINANCING SOURCES**  
**BUDGET TO ACTUAL--GENERAL FUND**  
**For the Year Ended February 28, 2003**

**EXHIBIT F**

	Budget	Actual	Variance Favorable (Unfavorable)
<b><u>REVENUES</u></b>			
Property Taxes			
Current and Delinquent	\$ 20,473	\$ 28,682	\$ 8,209
Total Property Taxes	20,473	28,682	8,209
State Aid			
Revenue Sharing	31,183	46,800	15,617
Total State Aid	31,183	46,800	15,617
Interest and Rentals			
Interest	978	1,448	470
Hall Rental	200	200	-
Land Rental	1,500	1,500	-
Total Interest and Rentals	2,678	3,148	470
Total Revenue	54,334	78,630	24,296
Other Financing Sources			
Operating Transfers In	1,915		(1,915)
Total Other Financing Sources	1,915	-	(1,915)
Total Revenue and Other Financing Sources	\$ 56,249	\$ 78,630	\$ 22,381

**VILLAGE OF BURLINGTON**  
**STATEMENT OF EXPENDITURES**  
**BUDGET AND ACTUAL--GENERAL FUND**  
**For the Year Ended February 28, 2003**

**EXHIBIT G**

	Budget	Actual	Variance Favorable (Unfavorable)
Legislative			
Village Council	\$ 1,487	\$ 3,968	\$ (2,481)
Total Legislative	1,487	3,968	(2,481)
General Government			
Elections	854	56	798
Clerk	948	2,408	(1,460)
Treasurer	1,387	3,987	(2,600)
Building and Grounds	8,200	7,249	951
Total General Government	11,389	13,700	(2,311)
Public Works			
Street Lights	6,152	6,152	-
Department of Public Works	946	2,270	(1,324)
Total Public Works	7,098	8,422	(1,324)
Recreational and Cultural			
Parks and Recreation	4,140	4,725	(585)
Community Promotion--Fire Truck	445	387	58
Total Recreational and Cultural	4,585	5,112	(527)
Other			
Insurance and Fringes	9,981	10,584	(603)
Total Other	9,981	10,584	(603)
Capital Outlay	807	807	-
Total Capital Outlay	807	807	-
Debt Service	4,111	-	4,111
Total Debt Service	4,111	-	4,111
Other Financing Sources			
Operating Transfers (Out)	4,000	4,000	-
Total Other Financing Source	4,000	4,000	-
Total Expenditures	\$ 43,458	\$ 46,593	\$ (3,135)

**VILLAGE OF BURLINGTON  
COMBINING BALANCE SHEET  
SPECIAL REVENUE FUNDS  
For the Year Ended February 28, 2003**

**EXHIBIT H**

	Major Streets	Local Street	Total
<b><u>ASSETS</u></b>			
Cash	\$ 78,057	\$ 7,391	\$ 85,448
Due From State	12,688	5,115	17,803
Due From Other Funds		3,643	3,643
Total Assets	<u>\$ 90,745</u>	<u>\$ 16,149</u>	<u>\$ 106,894</u>
<b><u>LIABILITIES AND FUND EQUITY</u></b>			
Liabilities			
Due to Other Funds	\$ 76,348	\$ 3,252	\$ 79,600
Total Liabilities	<u>76,348</u>	<u>3,252</u>	<u>79,600</u>
Fund Equity			
Fund Balance	<u>14,397</u>	<u>12,897</u>	<u>27,294</u>
Total Fund Equity	<u>14,397</u>	<u>12,897</u>	<u>27,294</u>
Total Liabilities and Fund Equity	<u>\$ 90,745</u>	<u>\$ 16,149</u>	<u>\$ 106,894</u>

**VILLAGE OF BURLINGTON**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCE--SPECIAL REVENUE FUNDS**  
**For the Year Ended February 28, 2003**

**EXHIBIT I**

	Major Streets	Local Streets	Total
Revenues			
State Grants	\$ 249,221	\$ 7,707	\$ 256,928
Interest	1,164	246	1,410
Total Revenue	250,385	7,953	258,338
Expenditures			
Public Works	304,843	30,826	335,669
Total Expenditures	304,843	30,826	335,669
Excess of Revenues Over (Under) Expenditures	(54,458)	(22,873)	(77,331)
Other Financing Sources (Uses)			
Operating Transfers In		4,000	4,000
Total Other Financing Sources (Uses)	-	4,000	4,000
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(54,458)	(18,873)	(73,331)
Fund Balance--March 1, 2002	68,855	31,770	100,625
Fund Balance--February 28, 2003	\$ 14,397	\$ 12,897	\$ 27,294



JENNIFER M. GRANHOLM  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

JAY B. RISING  
STATE TREASURER

October 11, 2004

Village Council  
Village of Burlington  
Calhoun County  
356 East Leroy  
Burlington, Michigan 49029

RE: Report on Compliance and on Internal Control Over Financial Reporting  
Based on an Audit of Financial Statements Performed in Accordance With  
Government Auditing Standards

Dear Village Council:

We have audited the financial statements of the Village of Burlington as of and for the year ended February 28, 2003, and have issued our report thereon dated October 11, 2004. As described more fully in Note B, the Village has not maintained a general fixed asset account group as required by accounting principles generally accepted in the United States of America. We conducted our audit in accordance with accounting principles generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance--As part of obtaining reasonable assurance about whether Village of Burlington's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. We noted certain immaterial instances of noncompliance, which we have reported to management in the attached comments and recommendations report.

Internal Control Over Financial Reporting--In planning and performing our audit, we considered Village of Burlington's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Village's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying comments and recommendations report.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be

material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, material weaknesses are described in the accompanying Comments and Recommendations Report.

This report is intended solely for the information of management, Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM  
Audit Manager  
Local Audit and Finance Division

VILLAGE OF BURLINGTON  
COMMENTS AND RECOMMENDATIONS

MATERIAL INTERNAL CONTROL WEAKNESSES

The village council is responsible for establishing and maintaining a system of internal controls over the accounting procedures. Our study and evaluation of internal control disclosed the following conditions that we believe to be material weaknesses:

General Ledger

*Finding 03-01*

*Condition:* The village does not maintain a general ledger.

*Criteria:* The general ledger is the gathering place for all local unit financial data. Properly maintained, it is a valuable tool of management. The general ledger is the single location in which all funds and accounts of the village are maintained. Entries in the general ledger are made only from (1) the receipts register; (2) disbursements register; and (3) the journal entries.

*Cause and Effect:* Failure to post complete accounting records on a timely basis may result in the following:

1. The financial condition of the village may not be readily determined.
2. The council may not be able to make sound business decisions because it has no financial data on which to make an evaluation.
3. The council may obligate more funds than are available, which is a violation of the Uniform Budgeting and Accounting Act.

*Recommendation:* We recommend that the village establish monthly procedures to assure that all transactions are posted properly to a general ledger and that the general ledger is in balance with the respective subsidiary accounts.

Bank Account Administration

*Finding 03-02*

*Condition:* The village did not retain all of the bank statements received during the 2002-2003 fiscal year. No reconciliations were performed with the bank statements until the village contracted an accountant to do so.

*Criteria:* The Standards of Internal Control for the Federal Government (which is a good general standard for all types of municipalities) states that reconciliations must be performed as part of internal controls. This is further enhanced by the Uniform Accounting Procedures Manual, which states that “all bank accounts must be reconciled to the local unit accounting records monthly and should then be reviewed by the appropriate supervisory personnel.” A reconciliation sheet should be prepared in duplicate for each month with one copy for the clerk and one copy for the treasurer. The clerk’s records must agree with or reconcile to the treasurer’s and the bank’s records. The Uniform Accounting Procedures Manual also requires bank statements be returned to the local unit and maintained for seven years (record retention requirement).



VILLAGE OF BURLINGTON  
COMMENTS AND RECOMMENDATIONS

MATERIAL INTERNAL CONTROL WEAKNESSES (Continued)

*Recommendation:* We recommend that all bank accounts be reconciled on a timely basis with the accounting records and that all bank accounts be recorded in the accounting records. The clerk and the treasurer should then compare the balances of the general ledger cash balances to the bank reconciliations. The activity in the bank should tie back to the general ledger and provide a means to correct errors in posting. We also recommend that the village retain all bank statements and their reconciliations for seven years to comply with the record retention requirements.

Issuance and Reconciliation of Receipts for All Revenue Received

*Finding 03-03*

*Condition:* We found that the village does not prepare receipts for all money collected, nor does it have any formal policy or procedures for receipting in revenue.

*Criteria:* Strong internal controls provide for the reliability of financial reporting, safeguarding of vulnerable assets, accurate and timely reporting of transactions, access restrictions to and accountability for resources and records, and proper documentation of transactions. The Michigan Department of Treasury, Uniform Accounting Procedures Manual, sets forth the minimum internal controls that must be in place in every unit of government in Michigan as follows:

1. Official receipts are to be issued for each collection whether received from an individual, the state, the county, or another local unit department.
2. Numerically controlled (printer pre-numbered) three-part official receipts with the name of the local unit printed on the receipt must be issued for all collections.
3. The use of generic, store-bought receipts is strictly prohibited.
4. "Cash" or "check" as the method of payment must be indicated on the receipt.
5. The receipt must identify the individual receiving payment.
6. The receipt must allow for immediate revenue account classification in conformance with the Uniform Chart of Accounts.
7. Checks must be restrictively endorsed at the point and time of collection.
8. When possible, someone other than the person who writes receipts or posts the accounting records must be responsible to verify that collections received in the mail are properly receipted.
9. When possible, collections must be reconciled by an individual not involved in the receipting process.

*Recommendation:* We recommend that receipts be written for all revenue received from whatever source. Further, the village must maintain a complete and accurate receipt register. Each month the bank deposits should be reconciled with the receipts issued and the cash balance in the general ledger.

VILLAGE OF BURLINGTON  
COMMENTS AND RECOMMENDATIONS

MATERIAL INTERNAL CONTROL WEAKNESSES (Continued)

Disbursements Records

*Finding 03-04*

*Condition:* The village's disbursements do not contain administrative approval and account classification. Time sheets are not signed or initialed to indicate evidence of supervisory review.

*Criteria:* Standards of Internal Control for the Federal Government lists *control activities* as one of the five components of internal control. Control activities occur at all levels and include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, and performance reviews. According to the Standards for Internal Control, transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire vendor payment and payroll process from the initiation and authorization through its final classification in summary records. According to the Uniform Accounting Procedures Manual, invoices should contain administrative approval as verification that the invoices (or timesheets) have been properly reviewed and "appropriate documentation that has been reviewed by the proper personnel must be attached for all disbursements." It also requires invoices to provide account classification in conformance with the Uniform Chart of Accounts.

*Recommendation:* We recommend that the person responsible for reviewing an invoice must sign or initial them verifying approval and that account classifications be included on all invoices. We also recommend that all time sheets must be signed or initialed to indicate supervisory review.

REPORTABLE CONDITIONS

Although the following are not considered material weaknesses in internal control, our audit disclosed certain other reportable conditions which we wish to point out for consideration by the management of the Village of Burlington.

Payroll Preparation

*Finding 03-05*

*Condition:* The village is not properly processing payroll. The following conditions exist relating to the preparation of payroll:

- 1) Amounts that are withheld are not paid to the IRS timely (monthly).
- 2) Form 941 was not prepared.
- 3) State withholdings have not been paid to the State.
- 4) Payroll expenses were not properly posted to the general ledger that was recreated.
- 5) Time sheets are not signed or initialed to indicate evidence of supervisory review.

*Criteria:* Circular E of the Internal Revenue Code states that withholdings are to be paid by the 15<sup>th</sup> day of the following month. For withholding amounts not properly or timely deposited, the penalty rates are 2% for 1-5 days late, 5% for 6-15 days late, and 10% for 16 or more days late.

## VILLAGE OF BURLINGTON

### COMMENTS AND RECOMMENDATIONS

#### REPORTABLE CONDITIONS (Continued)

Each quarter, all employers who pay wages subject to income tax withholding or social security and Medicare taxes must file **Form 941**, Employer's Quarterly Federal Tax Return, by the last day of the month that follows the end of the quarter. For each whole or part month a return is not filed when required, there is a penalty of 5% of the unpaid tax due with that return. The maximum penalty is 25% of the tax due. A form 941c should generally be prepared for any corrections of current period and prior period adjustments (see Circular E for more information).

State taxes withheld as a payroll deduction are to be paid to the State in a timely manner.

The entire payroll's expense, gross pay and employer share of withholdings, should be posted to the department that incurs the expense.

According to the Uniform Accounting Procedures Manual, time sheets should contain administrative approval as verification that they have been properly reviewed and "appropriate documentation that has been reviewed by the proper personnel must be attached for all disbursements."

*Recommendation:* We recommend that the village take more care in processing payroll and in reconciling payroll related reports. The village should ensure that:

- 1) All Federal withholding, Social Security and Medicare withholdings be deposited with the financial institution (to be paid to the IRS) within the time requirement.
- 2) All gross wages are included in the Form 941.
- 3) All calculations in the Form 941 are accurate.
- 4) Any amount due to the IRS is paid, if applicable, on a timely basis.
- 5) Form 941 is filed on a timely basis.
- 6) The village should investigate the balance due and contact the Michigan Department of Treasury, Sales Use and Withholding Division, to determine what action needs to be taken. This is especially important to avoid any more penalties and interest that may be charged.
- 7) The village should begin including administrative approval on all time sheets as verification that the appropriate personnel have reviewed them.

#### Vehicle Rental Expense

*Finding 03-06*

*Condition:* The village did not record or maintain records for vehicle rental expenses related to the General Fund, Major Street Fund, and Local Street Fund. The equipment in question was purchased out of the Equipment Fund.

VILLAGE OF BURLINGTON  
COMMENTS AND RECOMMENDATIONS

REPORTABLE CONDITIONS (Continued)

*Criteria:* According to Public Act 51 of 1951, as amended, when equipment is used on the streets that has been purchased by another fund (Equipment Fund), this fund will then be reimbursed by the Major and Local Street Funds through equipment rental payments based upon equipment usage reports prepared by the equipment operator. The General Fund should follow these same provisions, as this is the purpose of the Equipment Fund.

*Recommendation:* We recommend that when the General Fund or street funds use equipment, the funds using the equipment should reimburse the Equipment Fund. The equipment should be charged out as a rental expense in the General Fund and street funds using the equipment as rental income in the Equipment Fund.

General Fixed Assets

*Finding 03-07*

*Condition:* The village does not maintain adequate internal controls for fixed assets and a general fixed asset account group is not maintained in accordance with generally accepted accounting principles.

The village has not adopted a capitalization policy to determine a “threshold” to capitalize an asset or record it as an expenditure.

*Criteria:* It is the responsibility of the village to update the fixed assets listing for additions and deletions. Assets purchased during the year and recorded as capital outlay should equal the additions to the fixed asset records. Disposals should equal the reductions to the fixed asset records.

*Recommendation:* We recommend that the village develop a property management system that includes all of the following steps:

- 1) An inventory of all fixed assets owned by the village should be taken and included in the permanent records of the village and updated annually.
- 2) All assets owned by the village should be permanently labeled in some manner such as individual tags. This will not only facilitate the inventory suggested above, but will also make it more difficult for assets of the village to be removed or used by unauthorized personnel.

## VILLAGE OF BURLINGTON

### COMMENTS AND RECOMMENDATIONS

#### REPORTABLE CONDITIONS (Continued)

- 3) As part of the property management system, the village should keep records on all assets owned by the village, which includes the following information:

-Date of Acquisition	-Date of Disposal (when sold or scrapped)
-Tag Number	-Salvage Value (if any)
-Description of Property	-Life of Asset
-Original Cost of Asset	-Depreciation Method of the Asset
-Location of Asset	-Accumulated Depreciation of the Asset

- 4) Capital assets that meet the village's capitalization policy should be included on the capital asset listing.
- 5) Capital outlay/assets which are purchased under the established capitalization threshold or assets with a life expectancy of less than 1 year, regardless of cost, should be classified as a supply or repairs and maintenance expenditure.

Developing a property management system that includes the above steps will not only facilitate the preparation of financial statements related to fixed assets and provide a system of protection for the assets; it will provide an excellent record for insurance and replacement purposes as well. Governmental Accounting Standards Board (GASB) Statement No. 34 requires fixed assets to be included in the financial statements of the village. Compliance with GASB No. 34 is mandated for the village for fiscal year ending June 30, 2004 and after.

#### Accruals

*Finding 03-08*

*Condition:* Accruals (accounts receivable), the recording of the revenues in the accounting period to which they relate, were not recorded for the governmental funds. The village also does not record the April distribution of state revenue sharing as a receivable. Therefore, the corresponding revenue account is misstated.

*Criteria:* Governmental funds are to be maintained on a modified accrual basis. Generally accepted accounting principles also require that accounts receivable be established to properly match the fiscal year's revenues and expenses. Also, according to numbered letter 1997-1, Accrual of State Shared Revenues, local units with a February 28 year-end must accrue the April distribution because it is for the January/February collection period.

*Recommendation:* We recommend that the village record accruals. The accruals should be reconciled to subsidiary records to support the balances in the respective accounts.

VILLAGE OF BURLINGTON  
COMMENTS AND RECOMMENDATIONS

STATUTORY COMPLIANCE

Adoption of Village General Appropriation Acts

*Finding 03-09*

*Condition:* The village did not hold a public hearing before passing its 2002-2003 budget. The 2002-2003 budget was not adopted until after the start of the fiscal year. Budgets were not adopted for the Major Street Fund or the Local Street Fund. At the start of both years, the village was incurring expenditures in excess of the budget (because there was no budget adopted). The budgets that were adopted by the board were not balanced budgets, did not contain information from the most recently completed fiscal year, did not contain information from the current fiscal year, and did not contain beginning or ending fund balances. The budget that was prepared was not consistent with the Uniform Chart of Accounts.

*Criteria:* MCL 141.413 Sec. 3 states: "Each local unit shall hold such a public hearing prior to final adoption of its budget."

MCL 141.435 Sec. 15 states:

- (1) The recommended budget shall include at least the following:
  - (a) Expenditure data for the most recently completed fiscal year and estimated expenditures for the current fiscal year.
  - (b) An estimate of the expenditure amounts required to conduct, in the ensuing fiscal year, the government of the local unit, including its budgetary centers.
  - (c) Revenue data for the most recently completed fiscal year and estimated revenues for the current fiscal year.
  - (d) An estimate of the revenues, by source of revenue, to be raised or received by the local unit in the ensuing fiscal year.
  - (e) The amount of surplus or deficit that has accumulated from prior fiscal years, together with an estimate of the amount of surplus or deficit expected in the current fiscal year. The inclusion of the amount of an authorized debt obligation to fund a deficit shall be sufficient to satisfy the requirement of funding the amount of a deficit estimated under this subdivision.
  - (f) An estimate of the amounts needed for deficiency, contingent, or emergency purposes.
  - (g) Other data relating to fiscal conditions that the chief administrative officer considers to be useful in considering the financial needs of the local unit.
- (2) The total estimated expenditures, including an accrued deficit, in the budget shall not exceed the total estimated revenues, including an available unappropriated surplus and the proceeds from bonds or other obligations issued under the fiscal stabilization act or the balance of the principal of these bonds or other obligations.

VILLAGE OF BURLINGTON  
COMMENTS AND RECOMMENDATIONS

STATUTORY COMPLIANCE (Continued)

MCL 141.436 Sec. 16 states:

- (1) Unless another method for adopting a budget is provided by a charter provision in effect on April 1, 1980, the legislative body of each local unit shall pass a general appropriations act for all funds except trust or agency, internal service, enterprise, debt service or capital project funds for which the legislative body may pass a special appropriation act.
- (2) The general appropriations act shall set forth the total number of mills of ad valorem property taxes to be levied and the purposes for which that millage is to be levied. The amendatory act that added this subsection shall be known and may be cited as "the truth in budgeting act."
- (3) The general appropriations act shall set forth the amounts appropriated by the legislative body to defray the expenditures and meet the liabilities of the local unit for the ensuing fiscal year, and shall set forth a statement of estimated revenues, by source, in each fund for the ensuing fiscal year.
- (4) The general appropriations act shall be consistent with the uniform chart of accounts prescribed by the state treasurer or, for local school districts and intermediate school districts prescribed by the state board of education.

MCL 141.438 Section 18 (3) states: "Except as otherwise provided in section 19, an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body. The chief administrative officer, an administrative officer, or an employee of the local unit shall not apply or divert money of the local unit for purposes inconsistent with those specified in the appropriations of the legislative body."

*Direction:* We direct the village to comply with the above statutory budgeting requirements and to schedule and hold hearings as required by law. The village council must take appropriate action to ensure that the budget is balanced and adopted in a timely manner as required by law and make budget amendments as needed throughout the year.

Expenditures in Excess of Appropriations--Village's Budgetary Funds

*Finding 03-10*

*Condition:* Our examination of procedures used by the village to adopt and maintain operating budgets for the village's budgetary funds revealed the following instances of noncompliance with the provisions of Public Act 2 of 1968, as amended, the Uniform Budgeting and Accounting Act.

The Village's 2003 General Appropriations Act (budget) provided for expenditures of the General Fund to be controlled to the activity level by the village. As detailed below, actual 2002/2003 expenditures exceeded the board's approved budget allocations for several general fund activities.

VILLAGE OF BURLINGTON  
COMMENTS AND RECOMMENDATIONS

STATUTORY COMPLIANCE (Continued)

During the fiscal year ended February 28, 2003, expenditures were incurred in excess of amounts appropriated in the amended budgets for the general fund as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund			
Legislative			
Village Council	\$ 1,487	\$ 3,968	\$ (2,481)
General Government			
Clerk	948	2,408	(1,460)
Treasurer	1,387	3,987	(2,600)
Public Works			
Department of Public Works	946	2,270	(1,324)
Recreational and Cultural			
Parks and Recreation	4,140	4,725	(585)
Other			
Insurance and Fringes	9,981	10,584	(603)

*Criteria:* The expenditures of funds in excess of appropriations are contrary to the provisions of Section 17 of Public Act 2 of 1968, as amended.

*Direction:* We direct the village to develop budgetary control procedures for the general fund and special revenue funds which will ensure that expenditures do not exceed amounts authorized in the General Appropriations Act or amendments thereof.

Investment Policy

*Finding 03-11*

*Condition:* As of February 28, 2003, the village council has not adopted an investment policy.

*Criteria:* According to Public Act 196 of 1997, a formal investment policy is to be adopted by the board no later than August 31, 1998.

*Direction:* We direct the village to adopt an investment policy in accordance with Public Act 196 of 1997.